

**CITY OF HUDSON**

**INDEPENDENT AUDITOR'S REPORTS  
BASIC FINANCIAL STATEMENTS  
SUPPLEMENTARY AND OTHER INFORMATION  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

**JUNE 30, 2013**

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## **City of Hudson**

### **Officials**

Kevin Launderville	Mayor	Dec 2013
Dennis Sadler	Mayor Pro Tem	Dec 2013
Brad Ingamells	Council Member	Dec 2015
Mark Evers	Council Member	Dec 2015
Jerry Volker	Council Member	Dec 2015
Robert Grittmann	Council Member	Dec 2013
Sandie Diehl	City Coordinator/Clerk	Served as Clerk from July 1, 2012 to April 23, 2013
Richard Hansen	Attorney	January 1, 2013

**City of Hudson**



**RFSW** Ridihalgh Fuelling  
Snitker Weber & Co.  
C E R T I F I E D P U B L I C A C C O U N T A N T S

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Independent Auditor's Report

To the Honorable Mayor and  
Members of the City Council:

**Report on the Financial Statements**

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Hudson, Iowa, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the City's basic financial statements listed in the table of contents.

**Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the cash basis of accounting described in Note 1. This includes determining the cash basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances. This includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

**Auditor's Responsibility**

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the City's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting principles used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

**Opinions**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of

Hudson as of June 30, 2013, and the respective changes in cash basis financial position for the year then ended in conformity with the basis of accounting described in Note 1.

**Basis of Accounting**

As described in Note 1, these financial statements were prepared on the basis of cash receipts and disbursements, which is a basis of accounting other than U. S. generally accepted accounting principles. Our opinion is not modified with respect to this matter.

**Other Matters**

*Supplementary and Other Information*

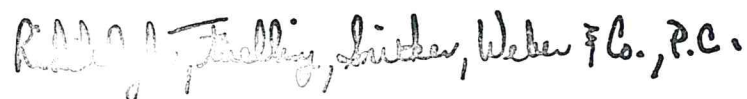
Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Hudson's basic financial statements. We previously audited, in accordance with the standards referred to in the third paragraph of this report, the financial statements for the eight years ended June 30, 2012 (which are not presented herein) and expressed unqualified opinions on those financial statements which were prepared on the basis of cash receipts and disbursements. The supplementary information included in Schedules 1 through 7 is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the basic financial statements themselves, and other additional procedures in accordance with U.S. generally accepted auditing standards. In our opinion, the supplementary information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

The other information, Management's Discussion and Analysis and the budgetary comparison information on pages I through VII and 25 through 26 has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

**Other Reporting Required by Government Auditing Standards**

In accordance with Government Auditing Standards, we have also issued our report dated September 18, 2013 on our consideration of the City of Hudson's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the City of Hudson's internal control over financial reporting and compliance.



Ridihaugh, Fuelling, Snitker, Weber & Co., P.C.

September 18, 2013



## MANAGEMENT DISCUSSION AND ANALYSIS

The City of Hudson provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2013. We encourage readers to consider this information in conjunction with the City's financial statements, which follow.

### 2013 FINANCIAL HIGHLIGHTS

- The City's revenues increased by \$464,562 from fiscal year 2012 to fiscal year 2013. Receipts in the City's governmental funds increased by \$417,618, receipts in the City's business funds decreased by \$46,944.
- Disbursements increased \$1,925,201 overall from fiscal year 2012. Increased expenses in the governmental funds were decreased by \$2,002,174 and decreased expenses in the business funds were \$56,387. The variables in governmental and business funds spending reflect a completion of projects and purchase of equipment from reserves.
- The City's total cash basis net assets decreased \$1,606,286 from fiscal year 2012 to fiscal year 2013 to a total of \$3,298,111. The decrease in the cash basis reflects expenditures on the capital projects.

### USING THIS ANNUAL REPORT

The annual report consists of a series of financial statements and other information as follows:

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the City's financial activities.

The Government-wide Financial Statement consists of a Statement of Activities and Net Assets. This statement provides information about the activities of the City as a whole and presents an overall view of the City's finances.

The Fund Financial Statements tell how governmental services were financed in the short term as well as what remains for future spending. Fund financial statements report the City's operations in more detail than the government-wide statement by providing information about the most significant funds.

Notes to financial statements provide additional information essential to a full understanding of the data provided in the basic financial statements.

Required Supplementary Information further explains and supports the financial statements with a comparison of the City's budget for the year.

Other Supplementary Information provides detailed information about the non-major governmental funds.

### BASIS OF ACCOUNTING

The City maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not

present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles. Therefore, when reviewing the financial information and discussion within this annual report, the reader should keep in mind the limitations resulting from the use of the cash basis of accounting.

## REPORTING THE CITY'S FINANCIAL ACTIVITIES

### Government-wide Financial Statement

One of the most important questions asked about the City's finances is, "Is the City as a whole, better off or worse off, as a result of the year's activities?" The Statement of Activities and Net Assets reports information which helps answer this question.

The Statement of Activities and Net Assets presents the City's net assets. Over time, increases or decreases in the City's net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The Statement of Activities and Net Assets is divided into two kinds of activities:

- Governmental Activities include public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service and capital projects. Property tax and state and federal grants finance most of these activities.
- Business Type Activities include the water utility, sanitary sewer system and the solid waste disposal funds. These activities are financed primarily by user charges.

### Fund Financial Statements

The City has two kinds of funds:

- 1) Governmental funds account for most of the City's basic services. These focus on how money flows into and out of those funds, and the balances at year-end that are available for spending. The governmental funds include: 1) the General Fund, including the Rural Fire Fund, 2) the Special Revenue Funds, such as Road Use Tax and Tax Increment Financing Fund, 3) the Debt Service Fund, and 4) the Capital Projects Fund. Further, governmental fund financial statements classify cash basis fund balances as 1) Non-spendable, 2) Restricted, 3) Assigned, or 4) Unassigned. The governmental fund financial statements provide a detailed, short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs.

The required financial statements for governmental funds include a statement of cash receipts, disbursements, and changes in cash balances.

- 2) Proprietary funds account for the City's Enterprise Funds and for the Internal Service Fund. Enterprise Funds are used to report business type activities. The City maintains four Enterprise Funds to provide separate information for the Water, and Sewer funds, considered to be major funds of the City, and Solid Waste Disposal considered to be non-major funds of the City. The City of Hudson no longer has an electric utility; however, in 2013 a balance remained within the fund. Internal Service funds are an accounting device



used to accumulate and allocate costs internally among the City's various functions. The City of Hudson utilizes no internal service funds.

- 3) The required financial statements for proprietary funds include a statement of cash receipts, disbursements and changes in cash balances. Reconciliations follow the fund financial statement process.

#### GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net assets may serve over time as a useful indicator of financial position. The City's cash balance for governmental activities decreased from a year ago, from \$4.561 million to \$2.741 million. The analysis that follows focuses on the changes in cash balances for *governmental activities*. Changes in Cash Basis Net Assets of Governmental Activities

(Expressed in Thousands)				
Year Ended June 30, 2012				
Description	2013	% of Total	2012	% of Total
Receipts and transfers:				
Program Receipts				
Charges for Services	71	4%	90	4%
Miscellaneous	48	3%	107	3%
General Receipts:				
Property Tax	869	47%	807	37%
Tax Increment Financing	83	5%	85	4%
Other City Taxes	275	15%	288	13%
Licenses & Permits	96	6%	98	4%
Use of Money & Property	39	2%	59	3%
Intergovernmental	388	18%	650	30%
<b>Total Receipts</b>	<b>\$1,869</b>	<b>100%</b>	<b>\$2,186</b>	<b>100%</b>
Disbursements:				
Public Safety	533	14%	606	14%
Public Works	401	7%	325	7%
Health and Social Services	0	0%	3	0%
Culture and Recreation	384	9%	402	9%
Community & Econ Devel	66	1%	53	1%
General Government	243	5%	240	5%
Debt Service	121	4%	201	4%
Capital Projects	731	59%	2,654	59%
<b>Total Disbursements</b>	<b>\$2,479</b>	<b>100%</b>	<b>\$4,484</b>	<b>100%</b>
Excess if receipts over disbursements	(610)		(2,298)	
Total other financing sources	<u>(1,211)</u>		<u>4,835</u>	
Increase in cash basis net assets	(1,819)		2,537	
Cash basis net assets beg. of year	<u>4,559</u>		<u>2,022</u>	
Cash basis net assets end of year	<u>2,740</u>		<u>4,559</u>	

The City's total receipts and transfers for governmental activities decreased by \$17,618. The total cost of all programs and services decreased by \$2.002 million, with no new programs added this year.

The City did not increase general fund property tax rates for 2013. The City of Hudson increased property tax by \$62,567. The City had governmental funds borrowed in fiscal 2013 equaling \$5.455 million including the existing 2011 General Obligation Bond of \$4.815 million and the newly added General Obligation Bond of \$.935 million.

The costs of all governmental activities this year was \$2.481 million compared to \$4.559 million last year. Overall the City's governmental program receipts increased in 2012 from approximately \$247,460 to \$417,618. The City paid for the remaining "public benefit" portion of governmental activities with remaining general obligation bonds, property tax, local option tax, and tax increment financing receipts. Total business type activity receipts, debt proceeds and transfers between accounts for the fiscal year were \$774,930 compared to \$821,916 last year. Total disbursements and transfers for the fiscal year were \$1,211,729 compared to \$992,390 last year.

Changes in Cash Basis Net Assets of Business Type Activities (Expressed in Thousands) Year Ended June 30, 2013				
Description	2013	% of Total	2012	% of Total
Receipts and transfers:				
Program Receipts				
Charges for Services				
Water	328	42%	310	33%
Sewer	290	36%	266	29%
Non-major	157	21%	158	17%
General Receipts:				
Unrestricted interest on investments	4		4	
Miscellaneous & Debt Proceeds	935	-10%	5	
Other and Transfers in	<u>1,399</u>	11%	<u>78</u>	
Total Receipts	<u>3,113</u>	100%	<u>821</u>	100%
Disbursements:				
Water	289	32%	259	30%
Sewer	1,291	51%	418	42%
Non-major	<u>131</u>	17%	<u>216</u>	21%
Total Disbursements	1,711	100%	893	100%
Transfers Out	<u>187</u>		<u>98</u>	
Increase (Decrease) in cash balance	214		-170	
Cash basis net assets beginning of year	<u>343</u>		<u>514</u>	
Cash basis net assets end of year	<u>557</u>		<u>343</u>	

#### INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS

- The Tax Increment Finance (TIF) Fund was established to account for a major urban renewal project within the City's business district. The cash balance in the TIF Fund was \$160,318 a decrease of \$439 over the 2012 fund balance of \$160,758. A Northern Tier Commercial Urban Renewal Area was established by the City of Hudson in fiscal year 2010 with no revenues or expenses certified.

- The Debt Service Fund was supported by transfers in of \$84,563 from the TIF Fund, \$96,000 from the Road Use Fund, and \$20,000 from the Sewer Fund. No property taxes were levied to pay down general obligation bonds. A GO Obligation Debt was issued on September 15, 2011 in the amount of \$4.815 million, leaving an outstanding balance of debt of \$4,520 million. The remaining balance in the Debt Service Fund was \$00.00.
- The Local Option Sales Tax Fund had receipts of \$275,678 and then transferred \$335,300 to the general fund. The net result was a decrease \$58,709 leaving an ending Local Option Sales tax Fund balance of \$409,189.
- The decrease in the Water Fund cash balance of \$14,796 due to a reallocation in expenses for bonding and an increase in water utility rates to offset increased expenses for purchased water from Waterloo Water Works. Ending balance for the Water Fund is \$328,168. The Water Sinking Fund cash balance was zero due to paying off State Revolving Fund loans with a GO Obligation Debt issued on June 24, 2013.
- The Sewer Fund cash balance increased \$204,667 to \$116,523 due to revenues and funds from the 2011 GO Obligation Debt funds. Ending balance for the Sewer Fund is \$116,523. The Sewer Sinking Fund cash balance was zero due to paying off State Revolving Fund loans with a GO Obligation Debt issued on June 24, 2013.
- The Storm Water Fund balance increased by \$28,019 with expenditures of \$7,545 being less than Revenues received of \$35,714. Ending fund balance for Storm Water is \$83,470.
- The Solid Waste Fund balance decreased by \$2,354 with expenditures of \$123,628 being more than Receipts received at \$121,275. Ending fund balance for Solid Waste is \$12,433.
- The Non-major Fund cash balance increased by \$552 to \$220,809. The increase was due to interest on the fund. The balance in the Non-major Fund reflects a cash basis total of \$441,065 with a restricted balance amount of \$365,144 leaving \$75,921 unassigned Non-major Fund in 2013.
- Capital Project Funds were established or maintained for the Northern Tier, Cedar Street Storm Water Project, Washington/Waterloo/6<sup>th</sup> Street Intersection and Ardis Street with a combined ending fund cash balance of \$359,183 a decrease of \$79,894 from 2012. Expenses are anticipated to be recouped with TIF Financing, Grants, Internal Fund Transfers, or Bond Notes.

Capital Projects Ending Balances for 2013 were negative:

Northern Tier	(\$232,209)
Cedar Street	(\$126,974)

- Special Revenue Funds increased by \$220,809 to a year ending balance of \$441,065.

Special Revenue Ending Balances for 2013:



IJOBS	\$67,790
Employee Benefits	\$ 6,299
TIF Capital Projects	\$10,498
TIF Surplus	\$154,646
TIF	(\$4,826)
Economic Development	\$200,000
Building Condemnations	\$ 5,000
Unemployment Benefits	\$ 1,658

#### BUDGETARY HIGHLIGHTS

Over the course of the year, the City amended its budget once. The net result of that amendment was to increase revenues by \$3,515,488. Budgeted expenditures increased by \$741,454 attributable to governmental activities. The budget increase was partially to reflect the new G.O. Bond and the payoff of the SFR loans not included in the original FY12 budget.

#### DEBT ADMINISTRATION

At June 30, 2013 the City had \$5,455,000 of General Obligation Capital Loan Notes. This includes a new General Obligation Capital Loan Note issued June 24, 2013 in the amount of \$935,000. In the fiscal year ended June 30, 2013 all three notes were paid in full to the State Revolving Fund including the interest due on the three notes.

#### Outstanding Debt at Year End (Expressed in Thousands)

Description	Year Ending June 30, 2013
2013 General Obligation-Capital Loan Note	935
2011 General Obligation-Capital Loan Note	4,520
2006 Water Revenue Capital Loan Note	0
2006 Sewer Revenue Capital Loan Note	0
2010 Water Revenue Capital Loan Note	0
2010 Sewer Revenue Capital Loan Note	0
Total Outstanding Debt	5,455

The Constitution of the State of Iowa limits the amount of general obligation debt cities can issue to 5% of the assessed value of all taxable property within the City's corporate limits. The City's outstanding general obligation debt of \$5,455,000 is below its constitutional debt limit.

#### ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The City of Hudson's elected and appointed officials and citizens considered many factors when setting the fiscal year 2014 budget.

Amounts available for appropriation in the operating budget are \$4,961,000, a decrease of \$719,000 over the 2014 estimated budgetary receipt amounts. This is due in a large part to a reduction in cost of services and anticipated reduction of grants. Budgeted disbursements are expected to be \$4,961,000 for the budget 2014. The City has added no major new programs; however, it is anticipated that



expenses will cost no more than anticipated revenues for fiscal year 2014 budgetary accounting. This number will fluctuate within the fiscal year 2014 due to capital project completion or delays, grant receipts, or emergency action items on behalf of the city.

#### CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact the Hudson City Clerk's Office, 525 Jefferson Street, Hudson, Iowa, 50643. Phone (319) 988-3600.

## **Basic Financial Statements**

## City of Hudson

## Cash Basis Statement of Activities and Net Position

As of and for the year ended June 30, 2013

Functions / Programs:	Disbursements	Charges for Service	Program Receipts	
			Oper. Grants, Contributions, and Restricted Interest	Capital Grants, Contributions and Restricted Interest
Governmental activities:				
Public safety	\$ 533,173	107,688	3,000	-
Public works	401,690	-	245,078	7,500
Health and social services	-	-	-	-
Culture and recreation	384,374	16,800	17,888	-
Community and economic developme:	66,861	22,380	-	-
General government	243,496	-	400	-
Debt service	121,053	-	-	-
Capital projects	731,035	-	-	-
Business type	-	-	-	-
Total governmental activities	2,481,682	146,868	266,366	7,500
Business type activities:				
Sewer	1,291,464	290,034	-	-
Water	1,212,907	327,907	-	-
Nonmajor business type funds	207,165	156,989	-	-
Total business type activities	2,711,536	774,930	-	-
Total	\$ 5,193,218	921,798	266,366	7,500

## General Receipts and Transfers:

Property tax levied for:  
 General purposes  
 Tax increment financing  
 Local option sales tax  
 Unrestricted interest  
 Rents  
 G.O. Bond  
 SRF Proceeds  
 Miscellaneous  
 Transfers

Total general receipts and transfers

Change in cash basis net position

Cash basis net position beginning of year

Cash basis net assets end of year

## Cash Basis Net Position

Restricted:

Expendable:

Streets

Debt Service

Other purposes

Unrestricted

Total cash basis net position

See notes to financial statements

Net (Disbursements) Receipts and  
Changes in Cash Basis Net Position

<u>Governmental</u> <u>Activities</u>	<u>Business Type</u> <u>Activities</u>	<u>Total</u>
(422,485)	-	(422,485)
(149,112)	-	(149,112)
-	-	-
(349,686)	-	(349,686)
(44,481)	-	(44,481)
(243,096)	-	(243,096)
(121,053)	-	(121,053)
(731,035)	-	(731,035)
-	-	-

(2,060,948)	-	(2,060,948)
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-	(1,001,430)	(1,001,430)
-	(885,000)	(885,000)
-	(50,176)	(50,176)

-	(1,936,606)	(1,936,606)
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(2,060,948)	(1,936,606)	(3,997,554)
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869,695	-	869,695
83,686	-	83,686
275,678	-	275,678
29,159	3,450	32,609
4,400	-	4,400
-	935,000	935,000
-	-	-
190,201	-	190,201
(1,211,729)	1,211,729	-

241,090	2,150,179	2,391,269
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(1,819,858)	213,573	(1,606,285)
4,560,871	343,525	4,904,396

\$ 2,741,013	557,098	3,298,111
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70,122	-	70,122
80,076	112,407	192,483
1,248,047	-	1,248,047
1,342,768	444,691	1,787,459

\$ 2,741,013	557,098	3,298,111
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## City of Hudson

Statement of Cash Receipts, Disbursements  
and Changes in Cash Balances  
Governmental Funds

As of and for the year ended June 30, 2013

	General	Special Revenue		Capital Proj.	
		Road Use Tax-#110	Local Option Tax-#121	Ardis Street-#307	Bond Sale 2011-# 320
Receipts:					
Property tax	\$ 725,413	-	-	-	-
TIF collections	-	-	-	-	-
Other city tax	-	-	275,678	-	-
Licenses and permits	96,641	-	-	-	-
Use of money and property	36,067	-	913	-	-
Intergovernmental	169,469	218,538	-	-	-
Charges for service	71,773	-	-	-	-
Special assessments	-	-	-	-	-
Miscellaneous	48,666	-	-	-	-
Total receipts	1,148,029	218,538	276,591	-	-
Disbursements:					
Operating:					
Public safety	533,173	-	-	-	-
Public works	297,516	104,174	-	-	-
Health and social services	-	-	-	-	-
Culture and recreation	384,374	-	-	-	-
Community and economic development	64,871	-	-	-	-
General government	243,496	-	-	-	-
Debt service	-	-	-	-	-
Capital projects	-	-	-	508,958	215,000
Business Type	-	-	-	-	-
Total disbursements	1,523,430	104,174	-	508,958	215,000
Excess of receipts over disbursements	(375,401)	114,364	276,591	(508,958)	(215,000)
Other financing sources (uses):					
Operating transfers in	467,558	-	-	583,580	-
Operating transfers out	(221,574)	(96,000)	(335,300)	-	(1,815,309)
Total other financing sources (uses)	245,984	(96,000)	(335,300)	583,580	(1,815,309)
Net change in cash balances	(129,417)	18,364	(58,709)	74,622.00	(2,030,309)
Cash balances beginning of year	1,755,446	51,758	467,898	(74,622)	2,504,024
Cash balances end of year	\$1,626,029	70,122	409,189	-	473,715
Cash Basis Fund Balances					
Restricted For:					
Streets	-	70,122	-	-	-
Debt Service	-	-	-	-	-
Other Purposes	-	-	409,189	-	473,715
Unassigned	1,626,029	-	-	-	-
Total cash basis fund balances	\$1,626,029	70,122	409,189	-	473,715

See notes to financial statements

Nonmajor Governmental	Total
144,282	869,695
83,686	83,686
-	275,678
-	96,641
2,427	39,407
-	388,007
-	71,773
-	-
-	48,666
230,395	1,873,553
-	533,173
-	401,690
-	-
-	384,374
1,990	66,861
-	-
-	243,496
121,053	121,053
7,077	731,035
-	-
130,120	2,481,682
100,275	(608,129)
422,137	1,473,275
(216,821)	(2,685,004)
205,316	(1,211,729)
305,591	(1,819,858)
(143,633)	4,560,871
161,958	2,741,013
-	70,122
80,076	80,076
365,143	1,248,047
(283,261)	1,342,768
161,958	2,741,013

City of Hudson

Reconciliation of the Statement of Cash  
Receipts, Disbursements and Changes in Cash Balances  
to the Cash Basis Statement of Activities and Net Position -  
Governmental Funds

As of and for the year ended June 30, 2013

<b>Total governmental funds cash balances (page 11)</b>	<b>\$ 2,741,013</b>
---	---------------------

The city does not have an internal service fund.  
Therefore there are no reconciling items.

-

**Cash basis net position of governmental  
activities (page 9)**

**\$ 2,741,013**

**Net change in cash balances (page 11)**

**\$ (1,819,858)**

The city does not have an internal service fund.  
Therefore there are no reconciling items.

-

**Change in cash basis net position of governmental  
activities (page 9)**

**\$ (1,819,858)**

See notes to financial statements



## City of Hudson

Statement of Cash Receipts, Disbursements and Changes in Cash Balances  
Proprietary Funds

As of and for the year ended June 30, 2013

	Sewer	Water	Nonmajor	Total
Operating receipts:				
Charges for service	\$ 290,034	327,907	156,989	774,930
Use of money and property	-	3,450	-	3,450
Miscellaneous	-	-	-	-
Total operating receipts	290,034	331,357	156,989	778,380
Operating disbursements:				
Business type activities	1,291,464	288,712	131,172	1,711,348
Total operating disbursements	1,291,464	288,712	131,172	1,711,348
Excess (deficiency) of operating receipts over (under) operating disbursements	(1,001,430)	42,645	25,817	(932,968)
Non-operating receipts (disbursements)				
G.O. Bond Proceeds	-	856,064	78,936	935,000
Debt service	-	(924,195)	(75,993)	(1,000,188)
Total non-operating receipts (disbursements)	-	(68,131)	2,943	(65,188)
Excess of receipts over (under) disbursements	(1,001,430)	(25,486)	28,760	(998,156)
Operating transfers in	1,260,414	57,260	80,887	1,398,561
Operating transfers out	(54,317)	(46,570)	(85,945)	(186,832)
Net change in cash balances	204,667	(14,796)	23,702	213,573
Cash balances beginning of year	(88,144)	342,964	88,705	343,525
Cash balances end of year	\$ 116,523	328,168	112,407	557,098
<b>Cash Basis Fund Balances</b>				
Unrestricted	\$ 116,523	328,168	-	444,691
Restricted for Debt Service	-	-	112,407	112,407
Total cash basis fund balances	\$ 116,523	328,168	112,407	557,098

See notes to financial statements



## City of Hudson

Reconciliation of the Statement of Cash  
Receipts, Disbursements and Changes in Cash Balances  
to the Cash Basis Statement of Activities and Net Position -  
Proprietary Funds

As of and for the year ended June 30, 2013

<b>Total enterprise funds cash balances (page 11)</b>	<b>\$ 557,098</b>
---	-------------------

The city does not have an internal service fund.  
Therefore there are no reconciling items.

-

**Cash basis net position of business type  
activities (page 8)**

**\$ 557,098**

**Net change in cash balances (page 11)**

**\$ 213,573**

The city does not have an internal service fund.  
Therefore there are no reconciling items.

-

**Change in cash basis net position of business type  
activities (page 8)**

**\$ 213,573**

See notes to financial statements

City of Hudson

Notes to Financial Statements

June 30, 2013

**(1) Summary of Significant Accounting Policies**

The City of Hudson is a political subdivision of the State of Iowa located in Black Hawk County. It was first incorporated in 1893 and operates under the Home Rule provisions of the Constitution of Iowa. The City operates under the Mayor-Council form of government with the Mayor and Council Members elected on a non-partisan basis. The City provides numerous services to citizens, including public safety, public works, health and social services, culture and recreation, community and economic development, and general government services. The City also provides water, sewer, and solid waste utilities for its citizens.

**A. Reporting Entity**

For financial reporting purposes, the City of Hudson has included all funds, organizations, agencies, boards, commissions and authorities. The City has also considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with the City are such that exclusion would cause the City's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body and (1) the ability of the City to impose its will on that organization or (2) the potential for the organization to provide specific benefits to or impose specific financial burdens on the City.

These financial statements present the City of Hudson and its discretely presented component unit the Hudson Municipal Electric Utility. This component unit, discussed below, is included in the City's reporting entity because of the significance of their operational or financial relationship with the City. (See Note 13)

**Discretely Presented Component Unit**

Hudson Municipal Electric Utility, established under Chapter 388 of the Code of Iowa, is a legally separate entity, but has the potential to provide specific benefits to or impose specific burdens on the City. The Utility is governed by a five member board appointed by the Mayor and approved by the Council. In accordance with criteria set forth by the Governmental Accounting Standards Board, the Utility meets the definition of a component unit which should be discretely presented. Condensed financial information presented in Note 13 is unaudited and was prepared on the cash basis of accounting in conformity with U. S. generally accepted accounting principles

### Jointly Governed Organizations

The City participates in several jointly governed organizations that provide goods or services to the citizenry of the City but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. The City is represented on the Black Hawk County Consolidated Public Safety Communications Board, Black Hawk Conference Board, Black Hawk County Solid Waste Management Commission, Iowa Emergency Medical Service Association, Black Hawk County Fire Fighters Association, Grundy County Fire Fighters Association, NEIA Regional Hazmat Agreement, Black Hawk County E911 Board, Tri-County Drug Enforcement Task Force, Black Hawk County REAP Commission, and Black Hawk County Metropolitan Area Transportation Board and Technical Committee.

### B. Basis of Presentation

Government-wide Financial Statements - The Statement of Activities and Net Assets reports information on all of the nonfiduciary activities of the City. For the most part, the effect of interfund activity has been removed from this statement. Governmental activities, which are supported by tax and intergovernmental revenues, are reported separately from business type activities, which rely to a significant extent on fees and charges for services.

The Statement of Activities and Net Assets presents the City's nonfiduciary net assets. Net assets are reported in two categories:

*Nonexpendable restricted net assets* are subject to externally imposed stipulations which require them to be maintained permanently by the City, including the City's Permanent Fund.

*Expendable restricted net assets* result when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

*Unrestricted net assets* consist of net assets not meeting the definition of the preceding category. Unrestricted net assets often have constraints on resources imposed by management, which can be removed or modified.

The Statement of Activities and Net Assets demonstrates the degree to which the direct disbursements of a given function are offset by program receipts. Direct disbursements are those clearly identifiable with a specific function. Program receipts include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function and 2) grants, contributions and interest on investments restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program receipts are reported instead as general receipts.

Fund Financial Statements - Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as nonmajor governmental funds.



The City reports the following major governmental funds:

The General Fund is the general operating fund of the City. All general tax receipts and other receipts not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating disbursements, the fixed charges and the capital improvement costs that are not paid from other funds.

Special Revenue:

The Road Use Tax Fund (#110) is used to account for road construction and maintenance.

The Local Option Tax Fund (#121) is used to account for the receipt and disbursement of the Local Option Tax.

Capital Projects:

Ardis Street is used to account for the improvements to Ardis Street.

The Bond Sale Fund (#320) is used to account for the proceeds and disbursements of the 2011 series General Obligation Bond.

The City reports the following major proprietary funds:

The Enterprise Sewer Fund accounts for the operation and maintenance of the City's waste water treatment and sanitary sewer system.

The Enterprise Water Fund accounts for the operation and maintenance of the City's water system.

C. Measurement Focus and Basis of Accounting

The City of Hudson maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles.

Under the terms of grant agreements, the City funds certain programs by a combination of specific cost-reimbursement grants, categorical block grants and general receipts. Thus, when program disbursements are paid, there are both restricted and unrestricted cash basis net position available to finance the program. It is the City's policy to first apply cost-reimbursement grant resources to such programs, followed by categorical block grants and then by general receipts.

When a disbursement in governmental funds can be paid using either restricted or unrestricted resources, the City's policy is generally to first apply the disbursement toward restricted fund balance and then to less-restrictive classifications-committed, assigned and then unassigned fund balances.

Proprietary funds distinguish operating receipts and disbursements from non-operating items. Operating receipts and disbursements generally result from providing services and producing and delivering goods in connection with a

proprietary fund's principal ongoing operations. All receipts and disbursements not meeting this definition are reported as non-operating receipts and disbursements.

D. Governmental Cash Basis Fund Balances:

In the governmental fund financial statements, cash basis fund balances are classified as follows:

Nonspendable-Amounts which cannot be spent because they are legally or contractually required to be maintained intact.

Restricted-Amounts restricted to specific purposes when constraints placed on the use of the resources are either externally imposed by creditors, grantors or state, or federal laws or imposed by law through constitutional provisions or enabling legislation.

Assigned-Amounts the Council intends to use for specific purposes.

Unassigned-All amounts not included in other spendable classifications.

E. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2013 the City exceeded the amounts budgeted in the debt service, the business type activities and in the capital projects program.

(2) **Cash and Pooled Investments**

The City's deposits in banks at June 30, 2013 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The City is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the City Council; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

As of June 30, 2013, the City had no investments, as all ending fund balances were in the form of certificates of deposit, savings accounts and checking accounts.

Interest rate risk-The City's investment policy limits the investment of operating funds (funds expected to be expended in the current budget year or within 15 months of receipt) to instruments that mature within 397 days and meet their definition of *Instruments Eligible for Investment*. Funds not identified as operating funds may be invested in investments with maturities longer than 397 days, but the maturities shall be consistent with the needs and use of the City.



### (3) Bonds and Notes Payable

Annual debt service requirements to maturity of the General Obligation Capital Loan Notes are as follows:

Year Ending June	Capital Obligation	
	<u>Capital Loan Notes</u>	
	<u>Principal</u>	<u>Interest</u>
2014	290,000	133,693
2015	295,000	132,708
2016	295,000	130,192
2017	335,000	126,820
2018	350,000	122,040
2019-2023	1,830,000	503,990
2024-2028	1,535,000	245,068
2029-2033	<u>525,000</u>	<u>42,400</u>
	\$ 5,455,000	1,436,911

#### General Obligation Refunding Bonds:

The City issued \$935,000 in General Obligation Corporate Refunding Bonds dated June 1, 2013 with variable interest ranging from 0.75% to 2.50%. The bonds were issued for the purpose of refunding series 2006 Water Revenue Capital Note, series Sewer Revenue Capital Note and series 2010 Water Revenue Loan.

Interest on the bonds is payable June 1 and December 1 each year beginning December 1, 2013. Principal payments are due on June 1 of each year beginning June 1, 2014.

#### General Obligation Corporate Purpose and Refunding Bonds:

The City issued \$4,815,000 in General Obligation Corporate Purpose and Refunding Bonds, dated September 15, 2011, with variable interest ranging from 0.35% to 4.00%. The notes were issued for the purpose of advance refunding of General Obligation Capital Loan Notes dated June 1, 2006 and to finance various improvements, including those to the city's streets, sidewalks, and sewer and water systems.

- Interest on the bonds is payable on June 1 and December 1 each year beginning June 1, 2013. Principal payments are due on June 1 of each year beginning June 1, 2013.
- The notes are subject to prepayment at the option of the Issuer; in each of the years 2020 through 2031 inclusive, prior to and in any order of maturity on June 30, 2019, or on any date thereafter upon terms of par plus interest to date of call.
- The bonds maturing June 1, 2027 and 2031 are subject to Mandatory Sinking Fund Redemption, in part, at 100% of the principal amount to be redeemed plus interest accrued to the date of redemption. Thus the 2027 \$490,000 Term Bond will require a payment of \$330,000 plus interest on June 1, 2026 and the remaining \$160,000 plus interest on June 1, 2027. The payments on the 2031 \$690,000 Term Bond is shown below:

#### 2027 Term Bond

<u>Year</u>	<u>Amount</u>
June 1, 2026	\$330,000
June 1, 2027	<u>160,000</u>
	\$490,000

2031 Term Bond

<u>Year</u>	<u>Amount</u>
June 1, 2028	\$165,000
June 1, 2029	170,000
June 1, 2030	175,000
June 1, 2031	<u>180,000</u>
	<u>\$690,000</u>

The City paid \$120,553 in interest and \$215,000 in principal during year ended June 30, 2013. Balance at June 30, 2013 was \$4,520,000.

**(4) Pension and Retirement Benefits**  
**Iowa Public Employees Retirement System-**

The City contributes to the Iowa Public Employees Retirement System (IPERS), which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits, which are established by state statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa, 50306-9117.

Most regular plan members are required to contribute 5.78% of their annual covered salary and the City is required to contribute 8.67% of covered salary. Certain employees in special risk occupations and the City contribute an actuarially determined contribution rate. Contribution requirements are established by state statute. The City's contributions to IPERS for the years ended June 30, 2013, 2012 and 2011 were \$53,962, \$54,324, and \$45,641, respectively, equal to the required contributions for each year.

**(5) Other Postemployment Benefits (OPEB)**

**Plan Description-**The City operates a single-employee retiree benefit plan which provides medical/ prescription drug benefits for employees and retired employees and their spouses. There are 14 active and retired members in the plan. Participants must be age 55 or older at retirement.

The medical/ prescription drug benefits are provided through a fully-insured plan with Wellmark. Retirees under age 65 pay the same premium for the medical/ prescription drug benefits as active employees.

**Funding Policy-** The contribution requirements of plan members are established and may be amended by the City. The City currently finances the retiree benefit plan on a pay-as-you-go basis. The most recent active member monthly premiums for the City and plan members are \$549 medical and \$25 dental for single coverage, \$1,040 medical and \$43 dental for employee and children, \$1,125 medical and \$51 dental, and \$1,686 medical and \$76 dental for family coverage. The same monthly premiums apply to retirees. For the year ended June 30, 2013, the City contributed \$92,651 and plan members eligible for benefits contributed \$12,564 to the plan.



**(6) Compensated Absences**

City of Hudson employees accumulate a limited amount of earned but unused vacation and sick leave hours based on the length of employment. It is payable when used and may be accumulated at a rate of 10 days per year, to a maximum of 90 days. At the end of employment, any employee with accumulated sick leave will be paid 15% of their accumulated sick leave. Vacation is payable when used and accumulates based on an employee's anniversary date. Vacation may be accumulated past the anniversary date in isolated cases specifically approved by the City council. The City also has a policy of paying an employee up to 50% of the employee's accumulated vacation time, at the current pay rate. Employees are also able to convert unpaid overtime hours into comp time at time and one-half. These accumulations are not recognized as disbursements by the City until used or paid. At the end of employment, the City is liable for earned vacation, for comp time, and for accumulated sick leave. The City's approximate liability for earned vacation termination payments payable to employees at June 30, 2013 is \$21,801. The City's approximate liability for earned comp time payable to employees at June 30, 2013 is \$13,293. The City's approximate liability for sick leave at June 30, 2013 is \$12,295. This liability has been computed based on rates of pay in effect at June 30, 2013.

**(7) Unemployment Fund**

The City files reports with the Iowa Workforce Development (IWD), but pays nothing to IWD. Therefore the City is responsible for any unemployment claims. Beginning in the year ended June 30, 2012 the City created a fund to account for unemployment claims. During the year the City transferred \$2,000 from the General Fund to the newly created Unemployment Fund. The City paid out no claims for year ended June 30, 2013.

**(8) Interfund Transfers**

The detail of interfund transfers for the year ended June 30, 2013 is as follows:

Transfers generally move resources from the fund statutorily required to collect the resources to the fund statutorily required to disburse the resources.

<u>Transfer to</u>	<u>Transfer from</u>	<u>Amount</u>
General	Capital Projects:	
	Local Option	\$ 335,300
	Special Revenue:	
	Employee Benefits	<u>132,258</u>
		<u>467,558</u>
Special Revenue:		
Ragbrai	General	4,225
Bldg Condemnation	General	5,000
Economic Development	General	<u>200,000</u>
		<u>209,225</u>
Debt Service:	Capital Projects:	
	TIF	84,563
	Special Revenue:	
	Road Use Tax	96,000
	Business Type:	
	Sewer	<u>20,000</u>
		<u>200,563</u>



Capital Projects:		
Safe Room	General	12,349
Ardis Street	Capital Projects:	
	Bond Sale 2011	<u>583,580</u>
		<u>595,929</u>
Business Type:	Business Type:	
Water	Water Sinking	57,260
Sewer	Sewer Sinking	28,685
	Capital Projects:	
	Bond Sale 2011	1,231,729
Water Sinking	Water	46,570
Sewer Sinking	Sewer	<u>34,317</u>
		<u>1,398,561</u>
Total Interfund Transfers		<u>\$2,871,836</u>

**(9) Related Party Transactions**

The City had business transactions between the City and City employees totaling \$5,785 during the year ended June 30, 2013.

**(10) Risk Management**

The City is exposed to various risks of loss related to torts; theft, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The City assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

**(11) Deficit Balance**

The Special Revenue, TIF Special Revenue Fund (#127), Capital Projects-North Tier (#305) and Cedar Street (#306) had deficit balances at June 30, 2013. The City will eliminate with the receipt of funds or the transfer of funds.

**(12) Landfill Commitment**

The City of Hudson has a contract with Black Hawk Waste for the collection of solid that began July 1, 2011 and runs until June 30, 2014.

**(13) Hudson Electric Municipal Utility**

The following Discretely Presented Component Unit is unaudited condensed financial information for the Utility for the year ended June 30, 2013.

Condensed Statement of Receipts, Disbursements and Changes in Cash Balances-As of and for the Year Ended June 30, 2013-Unaudited

Operating Receipts	\$ 1,518,507
Operating Disbursements	<u>1,473,388</u>
Net Change in Cash Balances	45,119
Cash Balance Beginning of Year	<u>707,389</u>
Cash Balance End of Year	<u>\$ 752,508</u>

**(14) Equipment Leases**

The City had a lease with Waterloo Implement for a 2011 John Deere #5085M tractor and a 2011 John Deere loader #563. The rental term was from May 1, 2011 to April 30, 2013. The City paid \$6,700 on the lease for the year ended June 30, 2013.

The City has a lease with Waterloo Implement for a John Deere zero turn mower. The lease is for the period May 1, 2013 to December 1, 2013. The city paid \$3,006 on this lease for the year ended June 30, 2013.

**(15) Litigation**

There is no pending litigation pending involving the City of Hudson.

**(16) Subsequent Events**

No significant subsequent events were noted.

## Other Information

City of Hudson

Budgetary Comparison Schedule  
of Receipts, disbursements, and Changes in Balances -  
Budget and Actual (Cash Basis) - All Governmental Funds and Proprietary Funds  
Other Information

Year ended June 30, 2013

	Governmental Funds Actual	Proprietary Funds Actual	Less Funds not Required to be Budgeted
Receipts:			
Property tax	\$ 869,695	-	-
Tax increment financing collections	83,686	-	-
Other city tax	275,678	-	-
Licenses and permits	96,641	-	-
Use of money and property	39,407	3,450	-
Intergovernmental	388,007	-	-
Charges for service	71,773	774,930	-
Special assessments	-	-	-
Miscellaneous	48,666	-	-
Total receipts	1,873,553	778,380	-
Disbursements:			
Public safety	533,173	-	-
Public works	401,690	-	-
Health and social services	-	-	-
Culture and recreation	384,374	-	-
Community and economic developr	66,861	-	-
General government	243,496	-	-
Debt service	121,053	1,000,188	-
Capital projects	731,035	-	-
Business type activities	-	1,711,348	-
Total disbursements	2,481,682	2,711,536	-
Excess of receipts over disbursements	(608,129)	(1,933,156)	-
Other financing sources, net	(1,211,729)	2,146,729	-
Excess of receipts and other financing sources over disbursements and other financing uses	(1,819,858)	213,573	-
Balances beginning of year	4,560,871	343,525	-
Balances end of year	\$ 2,741,013	557,098	-

See accompanying independent auditor's report.

Net	Budgeted Amounts		Final to Net Variance
	Original	Final	
869,695	869,701	869,701	(6)
83,686	86,553	86,553	(2,867)
275,678	303,240	359,240	(83,562)
96,641	64,475	96,475	166
42,857	42,525	59,525	(16,668)
388,007	2,429,833	2,511,833	(2,123,826)
846,703	1,138,180	1,146,880	(300,177)
-	-	-	-
48,666	126,715	126,715	(78,049)
2,651,933	5,061,222	5,256,922	(2,604,989)
533,173	602,156	683,962	150,789
401,690	1,788,457	1,884,957	1,483,267
-	6,500	6,500	6,500
384,374	850,435	866,935	482,561
66,861	254,852	270,342	203,481
243,496	250,625	265,925	22,429
1,121,241	335,015	335,015	(786,226)
731,035	-	515,858	(215,177)
1,711,348	973,111	973,111	(738,237)
5,193,218	5,061,151	5,802,605	609,387
(2,541,285)	71	(545,683)	(1,995,602)
935,000	-	546,274	388,726
(1,606,285)	71	591	(1,606,876)
4,904,396	2,536,356	2,536,356	2,368,040
3,298,111	2,536,427	2,536,947	761,164



City of Hudson

Notes to Other Information – Budgetary Reporting

June 30, 2013

In accordance with the Code of Iowa, the City Council annually adopts a budget on the cash basis following required public notice and hearing for all funds except Internal Service Funds and Fiduciary Funds. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

Formal and legal budgetary control is based upon ten major classes of disbursements known as functions, not by fund or fund type. These ten functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects, business type activities and non-program. Function disbursements required to be budgeted include disbursements for the General Fund, Special Revenue Funds, Debt Service Fund, Capital Projects Funds and Proprietary Funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. During the year, the budget was amended and increased budgeted receipts by \$195,700 and increased budgeted disbursements by \$741,454. The amendment was partially to reflect new revenue in the form of fees due to additional services by staff and the increase in expenditures reflects projects and increases in operational expenses.

### **Supplementary Information**

**City of Hudson**



## City of Hudson

Statement of Cash Receipts, Disbursements  
and Changes in Cash Balances  
Nonmajor Governmental Funds

As of and for the year ended June 30, 2013

	NonMajor Debt Service	NonMajor Special Revenue Schedule 2	NonMajor Capital Projects Schedule 3	Total
Receipts:				
Property tax	\$ -	144,282	-	144,282
Tax increment financing collections	-	83,686	-	83,686
Other city tax	-	-	-	-
Use of money and property	-	2,427	-	2,427
Intergovernmental	-	-	-	-
Miscellaneous	-	-	-	-
Total receipts	-	230,395	-	230,395
Disbursements:				
Operating:				
Public Works	-	-	-	-
Culture and Recreation	-	-	-	-
Community and Economic Development	-	1,990	-	1,990
Debt Service	121,053	-	-	121,053
Capital Projects	-	-	7,077	7,077
Total disbursements	121,053	1,990	7,077	130,120
Excess (deficiency) of receipts over (under) disbursements	(121,053)	228,405	(7,077)	100,275
Other financing sources:				
Operating transfers in	200,563	209,225	12,349	422,137
Operating transfers out	-	(216,821)	-	(216,821)
Net change in cash balances	79,510	220,809	5,272	305,591
Cash balances beginning of year	566	220,256	(364,455)	(143,633)
Cash balances end of year	\$ 80,076	441,065	(359,183)	161,958
<b>Cash Basis Fund Balances</b>				
Restricted for Other Purposes	\$ 80,076	365,143	-	445,219
Unassigned	-	75,922	(359,183)	(283,261)
	\$ 80,076	441,065	(359,183)	161,958

See accompanying independent auditor's report

## City of Hudson

Statement of Cash Receipts, Disbursements  
and Changes in Cash Balances  
Nonmajor Governmental Funds-Special Revenue

As of and for the year ended June 30, 2013

	Special Revenue				
	#002	#111	#112	#125	#126
	Ragbrai	I JOBS	Employee Benefits	TIF CAP PROJ	TIF SURPLUS
Receipts:					
Property tax	\$ -	-	144,282	-	-
Tax increment financing collections	-	-	-	-	-
Other city tax	-	-	-	-	-
Use of money and property	-	-	-	-	2,427
Intergovernmental	-	-	-	-	-
Total receipts	-	-	144,282	-	2,427
Disbursements:					
Operating:					
Public works	-	-	-	-	-
Culture and recreation	-	-	-	-	-
Community and economic development	-	-	-	-	-
Debt service	-	-	-	-	-
Capital Projects	-	-	-	-	-
Total disbursements	-	-	-	-	-
Excess (deficiency) of receipts over (under) disbursements	-	-	144,282	-	2,427
Other financing sources:					
Operating transfers in	4,225	-	-	-	-
Operating transfers out	-	-	(132,258)	-	-
Net change in cash balances	4,225	-	12,024	-	2,427
Cash balances beginning of year	(4,225)	67,790	(5,725)	10,498	152,219
Cash balances end of year	\$ -	67,790	6,299	10,498	154,646
Cash Basis Fund Balances					
Restricted for Other Purposes	-	-	-	10,498	154,646
Unassigned	-	67,790	6,299		
	\$ -	67,790	6,299	10,498	154,646

See accompanying independent auditor's report

#127 TIF	#161 Economic Development	#181 Building Condemnations	#182 Unemployment Payments	Total
-	-	-	-	144,282
83,686	-	-	-	83,686
-	-	-	-	-
-	-	-	-	2,427
-	-	-	-	-
83,686	-	-	-	230,395
-	-	-	-	-
-	-	-	-	-
1,990	-	-	-	1,990
-	-	-	-	-
-	-	-	-	-
1,990	-	-	-	1,990
81,696	-	-	-	228,405
-	200,000	5,000	-	209,225
(84,563)	-	-	-	(216,821)
(2,867)	200,000	5,000	-	220,809
(1,959)	-	-	1,658	220,256
(4,826)	200,000	5,000	1,658	441,065
-	200,000	-	-	365,144
(4,826)	-	5,000	1,658	75,921
(4,826)	200,000	5,000	1,658	441,065

## City of Hudson

Statement of Cash Receipts, Disbursements  
and Changes in Cash Balances  
Nonmajor Governmental Funds-Capital Projects

As of and for the year ended June 30, 2013

	Capital Projects			Total
	#304 SAFE ROOM	#305 North Tier	#306 Cedar St Strm Wtr	
Receipts:				
Property tax	\$ -	-	-	-
Tax increment financing collections	-	-	-	-
Other city tax	-	-	-	-
Use of money and property	-	-	-	-
Intergovernmental	-	-	-	-
Miscellaneous	-	-	-	-
Total receipts	-	-	-	-
Disbursements:				
Operating:				
Capital Projects	-	6,177	900	7,077
Total disbursements	-	6,177	900	7,077
Excess (deficiency) of receipts over (under) disbursements	-	(6,177)	(900)	(7,077)
Other financing sources:				
Operating transfers in	12,349	-	-	12,349
Operating transfers out	-	-	-	-
Net change in cash balances	12,349	(6,177)	(900)	5,272
Cash balances beginning of year	(12,349)	(226,032)	(126,074)	(364,455)
Cash balances end of year	\$ -	(232,209)	(126,974)	(359,183)
<b>Cash Basis Fund Balances</b>				
Unassigned	\$ -	(232,209)	(126,974)	(359,183)
Total cash basis fund balances	\$ -	(232,209)	(126,974)	(359,183)

See accompanying independent auditor's report



## City of Hudson

Statement of Cash Receipts, Disbursements  
and Changes in Cash Balances  
Nonmajor Proprietary Funds

As of and for the year ended June 30, 2013

	#670 Solid Waste	#601 Water Sinking	#611 Sewer Sinking	#740 Storm Water	#630 Electric	Total
Operating Receipts:						
Charges for service	\$ 121,275	-	-	35,714	-	156,989
Use of money and property	-	-	-	-	-	-
Miscellaneous	-	-	-	-	-	-
Total operating receipts	121,275	-	-	35,714	-	156,989
Operating Disbursements:						
Business type activities	123,628	-	-	7,544	-	131,172
Total operating disbursements	123,628	-	-	7,544	-	131,172
Excess (deficiency) of receipts over (under) operating disbursements	(2,353)	-	-	28,170	-	25,817
Non-operating receipts(disbursements):						
Debt Proceeds	-	57,260	21,676	-	-	78,936
Debt Service	-	(43,567)	(32,426)	-	-	(75,993)
Excess of receipts over disbursements	(2,353)	13,693	(10,750)	28,170	-	28,760
Operating transfers in	-	46,570	34,317	-	-	80,887
Operating transfers out	-	(57,260)	(28,685)	-	-	(85,945)
Net change in cash balances	(2,353)	3,003	(5,118)	28,170	-	23,702
Cash balances beginning of year	14,787	(3,003)	5,118	55,300	16,503	88,705
Cash balances end of year	\$ 12,434	-	-	83,470	16,503	112,407
<b>Cash Basis Fund Balances</b>						
Unrestricted	\$ 12,434	-	-	83,470	16,503	112,407
Restricted for Debt Service	-	-	-	-	-	-
Total cash basis fund balances	\$ 12,434	-	-	83,470	16,503	112,407

See accompanying independent auditor's report



CITY OF HUDSON  
SCHEDULE OF INDEBTEDNESS  
JUNE 30, 2013

	<u>Date of Issue</u>	<u>Interest Rates</u>	<u>Amount Originally Issued</u>
General Obligation Capital Ln Notes, Series 2013	6/24/2013	.75-2.5%	\$ 935,000
General Obligation Capital Ln Notes, Series 2011	9/15/2011	.35-4.0%	4,815,000
TOTAL GENERAL OBLIGATION			
Sewer Revenue Capital Ln Notesd, Series 2006 CWSRF	6/16/2006	3.00%	500,000
Water Revenue Capital Ln Note, Series 2006 DWSRF	6/16/2006	3.00%	630,000
Water Revenue Loan and Disbursement Agreement Iowa Finance Authority Series 2010-A SRF DW LOAN-DSG0133R	2/15/2010	3.00%	183,000

**Schedule 5**

<b>Balance 7/1/2012</b>	<b>Issued During Year</b>	<b>Redeemed During Year</b>	<b>Balance 6/30/2013</b>	<b>Interest Paid</b>	<b>Interest Due and Unpaid</b>
\$ -	935,000	-	935,000	-	-
4,735,000	-	215,000	4,520,000	120,553	-
4,735,000	935,000	215,000	5,455,000	120,553	-
315,985	-	315,985	-	9,991	-
479,000	-	479,000	-	15,234	-
169,000	-	169,000	-	5,381	-

## City of Hudson

## Bond and Note Maturities

June 30, 2013

Year Ending June 30,	General Obligation Capital Loan Notes		General Obligation Capital Loan Notes	
	Issued June 24, 2013		Issued Sept. 15, 2011	
	Interest Rates	Amount	Interest Rates	Amount
2014	0.75%	\$ 70,000	0.65%	220,000
2015	0.75%	70,000	0.95%	225,000
2016	0.75%	70,000	1.20%	225,000
2017	1.15%	70,000	1.50%	265,000
2018	1.15%	70,000	1.80%	280,000
2019	1.15%	70,000	2.10%	280,000
2020	1.70%	70,000	2.30%	295,000
2021	1.70%	70,000	2.50%	290,000
2022	1.70%	70,000	2.75%	300,000
2023	2.50%	75,000	2.85%	310,000
2024	2.50%	75,000	3.00%	320,000
2025	2.50%	75,000	3.15%	330,000
2026	2.50%	80,000	4.00%	330,000
			4.00%	160,000
			4.00%	165,000
			4.00%	170,000
			4.00%	175,000
			4.00%	180,000
		<u>\$ 935,000</u>		<u>4,520,000</u>

See accompanying independent auditor's report

## City of Hudson

Schedule of Receipts by Source and Disbursements By Function  
All Governmental Funds

For the Last Nine Years Ended June 30

	2013	2012	2011	2010
Receipts:				
Property tax	\$ 869,695	\$ 807,128	767,740	735,485
Tax increment financing	83,686	85,072	89,587	85,291
Other city tax	275,678	288,484	255,398	260,965
Licenses and permits	96,641	98,309	63,266	47,850
Use of money and property	39,407	59,277	36,051	116,637
Intergovernmental	388,007	650,579	369,220	339,158
Charges for service	71,773	90,566	71,704	61,605
Special assessments	-	-	-	-
Miscellaneous	48,666	107,956	55,207	24,788
Total	\$1,873,553	\$2,187,371	1,708,173	1,671,779
Disbursements:				
Operating:				
Public safety	\$ 533,173	\$ 606,162	466,753	390,220
Public works	401,690	324,787	420,462	339,263
Health and social services	-	2,750	3,000	3,000
Culture and recreation	384,374	402,206	362,891	319,378
Community and economic development	66,861	52,982	46,994	43,225
General government	243,496	240,157	192,430	245,411
Debt service	121,053	200,988	200,388	199,338
Capital projects	731,035	2,653,824	289,216	80,341
Business type	-	-	-	-
Total	\$2,481,682	\$4,483,856	1,982,134	1,620,176

See accompanying independent auditor's report



2009	2008	2007	2006	2005
702,182	664,085	663,057	679,949	579,612
85,849	83,541	53,445	61,042	337,583
256,879	252,649	224,717	233,252	218,195
39,445	43,283	37,024	40,125	33,009
109,803	87,998	114,536	104,153	76,821
304,243	329,042	288,862	400,681	430,497
65,139	63,575	41,355	25,971	27,054
-	-	-	-	-
26,476	76,147	32,389	37,620	32,569
1,590,016	1,600,320	1,455,385	1,582,793	1,735,340
733,212	407,123	408,563	435,337	344,562
325,640	332,346	960,408	599,231	321,786
3,045	3,000	4,500	2,500	1,787
306,881	310,679	314,752	276,246	346,490
44,230	46,921	601,328	140,978	74,673
240,505	241,598	227,196	245,170	208,078
203,338	206,939	106,938	952,913	177,773
-	383,001	-	38,395	123,745
-	-	-	-	-
1,856,851	1,931,607	2,623,685	2,690,770	1,598,894

**RFSW** Ridihalgh Fuelling  
Snitker Weber & Co.  
C E R T I F I E D P U B L I C A C C O U N T A N T S

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INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON  
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS  
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

To the Honorable Mayor and  
Members of the City Council:

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Hudson, Iowa, as of and for the year ended June 30, 2013, which collectively comprise the City's basic financial statements listed in the table of contents, and have issued our report thereon dated September 18, 2013. Our report expressed unqualified opinions on the financial statements which were prepared in conformity with an other comprehensive basis of accounting. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

The management of the City of Hudson is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the City of Hudson's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City of Hudson's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City of Hudson's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and, therefore, there can be no assurance all deficiencies, significant deficiencies or material weaknesses have been identified. However, as discussed below, in the accompanying Schedule of Findings and Questioned Costs, we identified certain deficiencies in internal control over financial reporting we consider to be material weaknesses and other deficiencies we consider to be significant deficiencies.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility a material statement of the City of Hudson's financial statements will not be prevented or detected and corrected on a timely basis. We consider the deficiency described in Part II of the accompanying Schedule of Findings and Questioned Costs as II-A-12 to be material weaknesses.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control which is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in Part II of the accompanying Schedule of Findings and Questioned Costs as items II-B-13 to be a significant deficiency.



## Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Hudson's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under Government Auditing Standards.

Comments involving statutory and other legal matters about the city's operations for the year ended June 30, 2013 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the City. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

The City of Hudson's responses to findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. While we have expressed our conclusions on the City's responses, we did not audit Hudson's responses and, accordingly, we express no opinion on them.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of the city of Hudson and other parties to whom Hudson may report, including federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the City of Hudson during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

*Ridihalgh, Fuelling, Snitker, Weber & Co., P.C.*

Ridihalgh, Fuelling, Snitker, Weber & Co., P.C.

September 18, 2013

**City of Hudson**



City of Hudson

Schedule of Findings and Questioned Costs

June 30, 2013

**Part I: Summary of the Independent Auditor's Results:**

- (a) An unqualified opinion was issued on the financial statements which were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles.
- (b) Significant deficiencies in internal control over financial reporting were disclosed by the audit of the financial statements, including material weaknesses.
- (c) The audit did not disclose any non-compliance which is material to the financial statements.

**Part II: Findings Related to the Financial Statements:**

**INTERNAL CONTROL DEFICIENCIES:**

II-A-13     Segregation of Duties – One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. City of Hudson is a small city with an office staff consisting of one utility clerk, one accounts payable/data entry clerk, one receptionist/secretary and a city clerk for a part of the year. The City Clerk has left and the position has not been filled. All employees can have custody of cash before depositing. The utility clerk, accounts payable/data entry clerk and the receptionist can record cash as it is received. The utility clerk, accounts payable/data entry clerk and the receptionist/secretary prepare deposit tickets.

Recommendation – We realize segregation of duties is difficult with a limited number of office employees. However, the City should review its control procedures to obtain the maximum internal control possible under the circumstances.

Response – The City will review its controls procedures in an attempt to maximum internal control where possible under the circumstances.

Conclusion – Response accepted.

- II-B-13     Significant Deficiency – The City of Hudson, Iowa prepares financial statements, but does not employ an accounting staff with the technical expertise to prepare its financial statements (including footnotes disclosures) in conformity with accounting principles general accepted in the United States of America; therefore, it relies on its auditors to prepare such statements.

Management Response – Management feels that having the auditors draft the financial statements and notes is a tolerable situation. Internal financial statements are prepared monthly for reporting and decision making purposes. The requirements and form of the audited statements are different than the internal needs and change occasionally. Given the size of the organization, it is helpful to rely on the expertise of the auditors to monitor those requirements. Management approves the draft financial statements prior to their issuance.

### **INSTANCES OF NON-COMPLIANCE**

#### **Part III: Findings and Questioned Costs for Federal Awards:**

There were no findings and questioned costs for federal awards.

#### **Part IV: Other Findings Related to Statutory Reporting:**

- IV-A-13     Official Depositories – A resolution naming official depositories has been approved by the City. The maximum deposit amounts stated in the resolution were not exceeded during the year ended June 30, 2013.

- IV-B-13     Certified Budget – City disbursements exceeded budgeted amounts in the debt service, the capital projects and the business type activities functions during the year ended June 30, 2013.

Recommendation-The budget should be amended in accordance with Chapter 384.18 of the Code of Iowa before disbursements were allowed to exceed the budget.

Response-The over expenditures were partly to the city clerk leaving and the amendment not being prepared timely. The city will be more diligent in the future in regard to amending the budget on a timely basis.

Conclusion-Response accepted.

- IV-C-13     Questionable Disbursements – We noted no disbursements that fail to meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979.

- IV-D-13     Travel Expense – No disbursements of City money for travel expenses of spouses of City officials or employees were noted.

- IV-E-13 Business Transactions – Business transactions between the City and City officials or employees are detailed as follows:

<u>Name, Title and Business Connection</u>	<u>Transaction Description</u>	<u>Amount</u>
Mary Bucy, Library Director, Owner of Bucy Cleaning	Janitorial services	\$5,785

The transaction with the Library Director does not appear to represent a conflict of interest since it was entered into through competitive bidding.

- IV-F-13 Bond Coverage – Surety bond coverage of City officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.

- IV-G-13 Council Minutes – No transactions were found that we believe should have been approved in the Council minutes but were not.

- IV-H-13 Deposits and Investments – We noted no instances of noncompliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa and the City's investment policy.

- IV-I-13 Payment of General Obligation Bonds-The General Obligation Capital Loan Notes, Series 2011 were paid from Capital Project-Ardis Street fund. Chapter 384.4 of the Code of Iowa states in part "Moneys pledged or available to service general obligation bonds, and received from sources other than property tax, must be deposited in the debt service fund."

Recommendation – In the future the City should transfer any potential payments against general obligation bonds into the Debt Service Fund. Payment on bonds should be disbursed from the Debt Service Fund.

Response – We will transfer in the future as recommended.

Conclusion – Response accepted.

- IV-J-13 Tax Increment Financing (TIF) – Chapter 403.19 of the Code of Iowa provides a municipality may certify loans, advances indebtedness and bonds (indebtedness) to the County Auditor which qualify for reimbursement from increment property tax. The County Auditor provides for the division of property tax to repay the certified indebtedness and provides available incremental property tax in subsequent fiscal years without further certification by the City until the amount of certified indebtedness is paid. We noted no instances of noncompliance with the provisions of Chapter 403.19 of the Code of Iowa.

- IV-K-13 Urban Renewal Annual Report-The urban renewal annual report was approved and report was filed November 26, 2012.

## Staff

This audit was performed by:

Donald A. Snitker, CPA, Audit Partner

Brent Waters, Staff

James Remington, Staff